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February 4, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Comments of Telstra Corporation Limited
IB Docket No. 96-261

Dear Mr. Caton:

Transmitted herewith, on behalf Telstra Corporation Limited ACN 051 775 556 ("Telstra"), are an original and nine copies of Telstra's Comments in the above-referenced proceeding to establish new benchmark rates for international settlements.

If there are any questions regarding this matter, please communicate with the undersigned.

Very truly yours,

Greg Staple

Gregory C. Staple

Enclosure

cc: Donald Gips
Diane Cornell
Kathryn O'Brian

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Before the FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

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In the Matter of International Settlement Rates) IB Docket No. 96-261

FEB 4 1997

COMMENTS

These comments are submitted by Telstra Corporation Limited ACN 051 775 556 (Telstra), Australia's leading domestic and overseas carrier, in response to the FCC's December 19, 1996 Notice of Proposed Rulemaking, FCC 96-484, (hereafter NPRM) in the above referenced docket.

Summary

Telstra believes that the NPRM contains some valuable discussion and analysis on settlement rate questions. However, Telstra is concerned that the scope of the NPRM is too narrow, in that it ignores many of the new and powerful dynamics of today's international communications services market. As discussed below, these market elements also must be considered and addressed in this or related dockets if the FCC wishes to achieve its stated aim of reducing communications costs to consumers.

Like the major U.S. international carriers, Telstra is a net outpayer of settlements and therefore has a similar interest in reducing settlement rates. Indeed Telstra has placed strong emphasis on reducing settlement rates with all our correspondent carriers and, for example, currently settles with U.S. carriers well below the low end of the existing US$0.39-$0.77 per-minute settlement benchmarks. Telstra anticipates that the upper end of the country-specific benchmark settlement range envisaged by the NPRM for the USA/Australia route (i.e. US$0.187 per minute) will be reached as a result of market forces and normal commercial negotiations during the next 12-18 months. (Telstra's average settlement rate with U.S. carriers is now approximately US$0.22 per minute.)

Apart from giving too little weight to the new commercial practices that have gained force in the international market, the NPRM also neglects the considerable influence of:

(i) **Internet traffic**. This is assuming major significance because of the unprecedented growth in capacity requirements to support Internet traffic and the benefits this now brings to U.S. international carriers. In Telstra's view, the current arrangements for exchange of Internet traffic are unjustifiably favorable to the U.S. to the detriment of foreign countries and carriers. With the international capacity requirements for Internet fast approaching that of the Public Switched Network (PSTN), this issue cannot be divorced from the discussion of telephone settlement rates; and

(ii) **Call turn-around (call-back), third country calling and re-origination or 'refile' activity**. Separately or in concert, these commercial practices -- which generally have been approved by the FCC -- allow U.S. (and other) carriers to dramatically change the in/out ratios of traffic on a given route, and thus can render the settlements paid by U.S. carriers unrepresentative of the underlying demand for service in any given country or what might be considered the "natural" balance of traffic.

We discuss these two matters further below.

Telstra also notes that implicit in the FCC's support for cost-based settlement rates is FCC acceptance of non-50:50 accounting rate splits, given that costs will inevitably vary from market to market and carrier to carrier. It is likely, for example, that U.S. carriers, operating with significant economies of scale and modern technology, will tend to have lower unit costs than most other operators around the world. The NPRM states, for example, that AT&T's average cost of terminating traffic in the U.S. is $.075 per minute - less than half the US$0.187 upper bound of the FCC's proposed benchmark range for the US-Australia route.

Another issue the FCC might wish to address is the extent to which the tariffs charged by U.S. carriers to their customers have not fallen in line with reductions in settlement rates - and in many cases have actually risen during a climate of falling settlement rates. Apart from the cost to consumer welfare, the failure of U.S. carriers to reduce their international tariffs has dampened traffic growth considerably and led to inefficient use of available network capacity on many routes, again to the detriment of foreign carriers.

1. Internet

The international capacity required to support Internet traffic is growing at a prodigious rate. Telstra's Internet capacity requirement to the U.S., for example, has grown ten-fold in the past 18 months, and along with much of the rest of the world, is now growing at 10% per month, or trebling each year. To access U.S.-based Internet sites, however, U.S. carriers have insisted that foreign carriers pay for both of the required international half-circuits, i.e., for 100% of the cost of the international link. In contrast, where international telephone service is involved, the U.S. and foreign carrier each pay for their own half-circuit.

When Telstra first established international capacity to the U.S. to meet the needs of Australian Internet users the traffic was almost all "one-way" - asymmetrically from the U.S. to Australia, as Australian users accessed Web-sites in the U.S. and down-loaded information and content. Today, the traffic patterns between the U.S. and Australia have changed, and the traffic flow has shifted significantly. Telstra estimates the flow is in the order of 70:30 U.S.-to-Australia vs. Australia-to-U.S., due mainly to U.S. Internet users increasingly drawing on Australian Internet content (this includes traffic to significant 'mirror' sites located in Australia and to many Australian web sites such as a new family-oriented Internet directory service located in Melbourne).

Yet U.S. carriers still insist on foreign carriers paying for the cost of both half-circuits. The continuation of this arrangement means that foreign carriers are effectively subsidizing U.S. carriers and U.S. Internet service providers (which, of course, are frequently under common ownership.) In the case of Telstra alone, this subsidy to the U.S. in respect of the 82 Mbps capacity currently in place for Internet traffic (equivalent to 5000 voice channels), presently amounts to approximately U.S. $9.6 million per annum. This represents a global subsidy of US$200million, which is trebling every year. Even assuming that half the Internet traffic to and from the US is carried on wholly-owned international circuits by the year 2000 (as opposed to the existing lease arrangements), this subsidy will grow to at least US$2.5 billion by the year 2000. Telstra believes that under an equitable regime the cost-allocation of Internet capacity must reflect the traffic flows, yet the NPRM overlooks this aspect of the market for international services.

Telstra therefore submits that the FCC should use this (or related) dockets to review the current tariffing practices of U.S. carriers for international private line services which are required to provide Internet access. It is Telstra's view that uniform flat rate (i.e., non-traffic sensitive and non-cost based) IPL tariffs for Internet access are unreasonable and discriminate against foreign Internet service providers and carriers, like Telstra, which connect them. These practices likely violate Sections 201 and 203 of the U.S. Communications Act, and Part 61 of the FCC's Rules. Reform of the U.S. carriers' unreasonable and discriminatory IPL tariffing practices for Internet services hence should be made an integral part of the Commission's campaign for more cost based international communication charges.

2. Tariffs

U.S. carriers tend to be selective about which customers have access to any reduction in tariffs that flow from reductions to settlement rates. Telstra has worked with U.S. carriers to reduce the settlement rate by 44% in the past three years, and Telstra has reduced its filed tariff for calls from Australia to the U.S. to reflect the reduced settlement rate.

However, according to the August 1996 report of the FCC's InternationalBureau, titled, Trends in the International Telecommunications Industry (Table 11, page 33), there has been no reduction in AT&T's standard filed tariffs for direct-dialed residential rate calls from the U.S. to Australia since 1989. Indeed, the AT&T standard tariff for these calls was increased in 1993 and rose again in 1995. The foregoing FCC report lists the AT&T rates at U.S. $12.19 for a seven minute call, as at April 1996. The 1996 standard Telstra rate for a seven minute call to the U.S. is U.S. $7.22 - 40% less than the AT&T rate.

While recognizing that major businesses, wholesalers and large-volume customers are offered very attractive rates in the U.S., the normal filed tariff available to consumers is still at unattractively high levels for a significant segment of the telecommunications customers in the U.S. These high rates deter outbound calling and unnecessarily inflate the ratio of inbound vs. outbound calls, to the detriment of Telstra and other foreign carriers. The failure of U.S. carriers to reduce collection rates in line with settlement rates reductions also has the perverse impact of dampening international traffic at a time when unprecedented new capacity is available on trans-Pacific and other routes. (For example, the new TPC-5 and PACRIM cables linking the U.S., Japan and Australia provide enough capacity to carry more than 500,000 additional simultaneous voice calls.)

In these circumstances, Telstra suggests that the FCC amend its rules to require that all U.S. carriers advise the FCC annually, in arrears, of their average tariffed rate for international message telephone service on 31 July and 31 December for the top 50 routes on which U.S. carriers had significant settlement deficits as detailed in the Appendix to the NPRM. On the first occasion of this reporting, the data on tariff rates for the past five years should also be included to show the relevant trends.

3. International Settlement Policy (ISP)

The NPRM specifically states, at paras. 76, 77 & 90, that the FCC's International Settlements Policy (ISP) will remain in force while the benchmark implementation is progressed. This appears to be in contradiction of the FCC's November 1996 Flexibility Order in Docket No. CC 90-337 and raises a number of issues not specifically covered in detail in the NPRM.

Specifically, the Flexibility Order, in Telstra's reading, allows for development of proposals that have non-proportional return elements and opens negotiation of variable arrangements where these are in the public interest. Telstra has previously proposed a non 50:50 division of the accounting rate with U.S. carriers and would propose such a division in the future. The NPRM implies, and Telstra suggests, that the cost-based rate for a U.S. carrier would generally be lower than the cost-based rate for many foreign carriers. The NPRM should address this option specifically because the NPRM does not expressly propose a U.S. benchmark and hence the nature of the accounting rate split envisioned under the new benchmark regime is not clear.

Moreover, to the extent accounting rates come down to cost the U.S. carriers will, by necessity, also propose differing settlement rates reflecting their varying cost structures derived from economies of scale, operating area, structural and operational differences. Such differences are also likely to lead carriers to propose non-proportional return arrangements. Telstra assumes that such non-traditional settlement arrangements - to the extent they are cost based and in the public interest - are permitted by the Flexibility Order - benchmarks notwithstanding - and urges the FCC to clarify the NPRM accordingly.

It is also worth noting that as non-parallel, non 50:50 cost-based settlement rates become a reality, this will remove the need for publication of accounting rates by the FCC. So long as collection rates are monitored by the FCC, Telstra sees little need for the publication of the underlying accounting rates achieved through commercial negotiations (ie on competitive routes).

4. Inbound/outbound ratio

The main influence on the level of U.S. carrier outbound settlements is the inbound/outbound (i/o) ratio. As detailed in the NPRM, the widening outward imbalance in the U.S. i/o ratio has further increased the level of outward settlement by U.S. carriers in recent years, despite continuing reductions in the settlement rates with many or most countries.

The NPRM, however, pays little recognition to the influence of a set of services which are an important factor in determining this ratio, and in the net financial position of the U.S. carriers. Home Country Direct, use of telecommunications cards, CallBack and refile traffic typically all generate for the U.S. carrier involved an outbound settlement to a foreign carrier. These outbound payments generally lead to a proportionate increase in inbound traffic and settlement which, in some cases, are greater than the settlement outpayment generated. Otherwise the U.S. carriers would not choose to operate these services at the existing market rates. Telstra is not opposed to the existence of such services. Rather, Telstra wishes to underscore that while these services plainly exacerbate the *gross outward settlements* problem for the U.S., they might not also increase *net economic outflow* from the U.S. Further, the U.S. i/o ratio is not a reliable guide to the "national" traffic balance on any given U.S. route, or the potential U.S. subsidy involved, assuming such a subsidy in fact exists.

Refile traffic originating beyond the U.S., passing through the U.S. carriers and terminating in Australia has been the biggest single contributor to the changes in the i/o on the U.S./Australia stream in the past two years, and Telstra suspects that this is also the case for many other international streams. Hence, if the perceived inbound/outbound problem is one of the main moral and economic justifications for the current NPRM, the FCC's argument needs to be reexamined.

5. Refile

In line with the above, the burgeoning international refile trade warrants deeper consideration than it has been given in the NPRM. Refile traffic is now a global business with large volumes of traffic chasing spot rates available in the market to most destinations. Telstra estimates that in 1997 over 1.2 billion minutes of international traffic will be handled on a refile basis. The availability of this alternative source of routing (at spot rates) has essentially "commoditised" the market for international telecommunications traffic.

The availability of this alternative means that carriers (including U.S. carriers) have the option to effectively balance traffic on any particular stream, or even to turn outbound streams into inbound streams. This can and does happen. Refile rates are headed towards cost-based levels much more rapidly than traditional accounting rates.

The commercial activity stimulated in the market by the price gap between traditional settlement rates and spot refile rates is more likely rapidly to reduce the effective terminal rates to cost that the benchmarking proposed by the FCC.

6. Conclusion

Telstra supports the objectives of the FCC in seeking to reduce the cost of international communications to consumers and create a more efficient and competitive global communications industry.

These comments are intended as a positive contribution to that process, and are intended to highlight the importance of a range of issues additional to that of settlement rates. Telstra believes that only if the FCC and other players in the industry tackle these complex issues in a holistic and constructive manner will these objectives be achieved.

Respectfully submitted,

John Hibbard
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February 3, 1997